Clearwater Advisors, LLP
Mortgage TBAs: Merrill Lynch Mortgage Master Benchmark

For the month of: August 2006

Manager Performance Calculations   *Annualized returns*

	Last Month	Last 3 Months	Last 1 Year	Last 3 Years*	Last 5 Years*
Clearwater (CW) TBA	1.51%	3.1636%	2.77%	4.22%	-
CW TBA + CW Cash	1.50%	3.20%	2.85%	4.28%	-
Merrill Lynch Mortgage Maste	1.50%	3.24%	2.95%	4.34%	-

Performance Attribution & Strategy Comments

Interest rates fell across most of the U.S. Treasury curve during August as the market adjusted to the Fed's pause in the tightening cycle. The 10-year fell 25 basis points ending at 4.73% while the 5 year yield was lower by 20.7 basis points finishing the month at 4.69%. The 5-10 year Treasury Index returned 1.76%. The TBA portfolio performed inline with the Merrill Lynch Mortgage Master Index.

Portfolio Guideline Compliance

Portfolio Guideline:	Clearwater	Min	Max	Compliance
A1. The account shall consist solely of dollar denominated TBA mortgage securities				ok
B2a. Effective duration +/- 10% of index	3.85	3.79	◄ ML Mtge	ok
B2b. Number of securities	6	5	30	ok
Cash position covers TBA positions (in $ millions)	Cash	$ 156.1		
	TBA positions	$ 154.3		ok
The portfolio is in compliance with all other aspects of the Portfolio Guidelines			☑ Yes	☐ No

Manager Explanations for Deviations from Portfolio Guidelines

There were no deviations.

Organizational/Personnel Changes

Account Turnover

Gained:	Number of Accounts:	0	Total Market Value ($m):	$	-
Lost:	Number of Accounts:	0	Total Market Value ($m):	$	-
	Reason(s):	N/A			

Manager Style Summary

The mortgage TBA portfolio consists of "To Be Announced" mortgage-backed securities. These are pools of mortgages which are yet to be issued and can be purchased without immediate cash payment. PERSI requires a cash balance large enough to cover all TBA positions, thus, this portfolio will tend to maintain a high cash position The "TBA + CW Cash" performance includes the excess returns over Mellon STIF generated by the Clearwater Cash portfolio.

Clearwater Advisors, LLP
Cash: 90-Day LIBOR

For the month of:	August	2006

Manager Performance Calculations

	Last Month	Last 3 Months	Last 1 Year	Last 3 Years*	Last 5 Years*
Clearwater - PERSI STIF	0.44%	1.34%	4.68%	2.80%	-
ML 3 Month LIBOR	0.48%	1.34%	4.55%	2.69%	-

Performance Attribution & Strategy Comments

On August 8th the Fed decided to leave the short term target rate at 5.25%; the first breather that the Fed has taken since it began the tightening cycle more than two years ago. Interest rates fell across the entire U.S. Treasury curve with 3-Month Libor dropping nearly 7 basis points. Markets are pricing in a slim probability the Fed will raise rates by the end of the year. During the last few months we have increased the duration of the portfolio by adding corporate bonds while maintaining sufficient shorter term investments to meet liquidity requirements.

Portfolio Guideline Compliance

Portfolio Guideline:	Clearwater	Min	Max	Compliance
B2a. Sector Allocations:	100%			
Treasuries	0%	0%	100%	ok
Agencies	0%	0%	100%	ok
Corporates	34%	0%	100%	ok
Mortgage Backed Securities (MBSs)	0%	0%	60%	ok
Asset Backed Securities (ABSs)	0%	0%	40%	ok
Cash	14%	0%	100%	ok
Commercial Paper	52%	0%	100%	ok
B2b. Quality: Securities must be rated investment grade by S&P or Moody's at time of purchase				ok
B2c. Effective Duration <=18 months	2		18	ok
B2d. Number of securities	25	10	50	ok
B3a. Allocation of corporate securities to one issuer	5%		5%	ok
The portfolio is in compliance with all other aspects of the Portfolio Guidelines		☑ Yes	☐ No	

Manager Explanations for Deviations from Portfolio Guidelines

There were no deviations.

Manager Style Summary

The enhanced cash portfolio was created with the expectation that the portfolio will generate returns similar to, or in slight excess of, the Mellon Short-Term Investment Fund (STIF), while providing PERSI with an increased level of transparency into the cash portfolio.